



CITY OF LODI COUNCIL COMMUNICATION

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AGENDA TITLE: A resolution of the of the City Council of the City of Lodi transferring \$4,500,000 from the Rate Stabilization Fund to the Electric Revenue Fund and establishing a timeline to replenish the Rate Stabilization Fund

MEETING DATE: June 15, 2005

PREPARED BY: Finance Director

RECOMMENDED ACTION: That Council approve a resolution to transfer \$4,500,000 from the Electric Rate Stabilization Fund to the Electric Utility Fund in Fiscal Year 2004-05 and to replenish this same amount and any additional amounts as deemed appropriate and as provided within a rate study and fiscal analysis, which will be completed no later than December 31, 2005 by the City Manager.

BACKGROUND INFORMATION: The budget for bulk power purchases in the Electric Utility Department has been steadily increasing over the last five years. Staff has purchased bulk power with a relatively short term planning horizon. The net result has been that as energy costs have escalated over the years so has the City's cost (bulk power purchases) to provide electricity to its customers; and in the current year the bulk power purchase budget will be overspent by approximately \$4.5 million. Three options to consider for resolving this issue are as follows: 1) Utilize the Rate Stabilization Fund to alleviate the immediate need, 2) Cost savings to offset the budget imbalance, or 3) Adjust rates. Essentially, it is too late to alleviate the current year budget imbalance with options 2 or 3. Thus, staff is recommending that the first option, which is to transfer \$4.5 million from the Rate Stabilization Fund, be considered at this time. The Fund was established several years ago and now has a balance of approximately \$6.3 million. After the transfer, the Fund will have a remaining balance of \$1.8 million. This is not an appropriate amount to help mitigate future needs for rate increases. This fund should be maintained at least at the \$6.3 million level; and more appropriately should be increased to a level that will allow for stable electric rates over the long-term in relation to the dynamic nature of department's cost elements. Staff will undertake an evaluation to determine the appropriate level of the Rate Stabilization Fund as well as the levels for all elements of the Electric Utility Fund Balances and associated Electric Utility Rates. We will complete this evaluation no later than December 31, 2005. At this time, we recommend that the Council consider favorably our request to transfer the \$4.5 million from the Rate Stabilization Fund; and ~~that~~ staff be tasked with evaluating the timing and extent to which electric rates will need to be adjusted.

FISCAL IMPACT: The transfer from the Rate Stabilization Fund will reduce the balance to \$1.8 million. This will not be a sufficient amount to allow for proper debt service coverage and for a stable healthy Fund Balance for future operations. The reduction in the balance in this fund is a short-term measure and should be considered to be primarily to alleviate the current budget imbalance. Rate increases are anticipated and will be needed in order to provide for the long-term health of the Electric Utility operations.

APPROVED:

A handwritten signature in blue ink, appearing to read "Blair King", written over a horizontal line.

Blair King, City Manager

FUNDING AVAILABLE: Not applicable


James R. Krueger, Finance Director

RESOLUTION NO. 2005-126

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI
TRANSFERRING \$4,500,000 FROM THE RATE STABILIZATION FUND TO
THE ELECTRIC REVENUE FUND AND DIRECTING THE CITY MANAGER
TO PERFORM A RATE STUDY AND FISCAL ANALYSIS

WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), owns and operates a municipal electric system (the "Electric System") to provide the City and its inhabitants with electricity; and

WHEREAS, the City Council adopted Resolution No. 2001-303 on December 19, 2001, whereby the City is authorized to enter into an Installment Purchase Contract (the "Installment Purchase Contract") with the Lodi Public Improvement Corporation, a non-profit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), whereby the Corporation acquired from the City certain existing improvements to the Electric System, as more fully described in Exhibit 1 to the Installment Purchase Contract (the "Existing Facilities"), and whereby the Corporation sold such Existing Facilities back to the City as provided in the Installment Purchase Contract; and

WHEREAS, pursuant to the Installment Purchase Contract, the City is obligated to make installment payments (the "Payments") to the Corporation for the purchase of the Existing Facilities; and

WHEREAS, Resolution No. 2001-303 further approved the refinancing of the improvements to the Existing Facilities as provided in the Installment Purchase Contract through the execution and delivery of Electric System Revenue Variable Rate Demand Certificates of Participation, 2002 Series A (the "Series A Certificates") evidencing proportionate interests of the owners thereof in the Payments to be made by the City; and

WHEREAS, the Trust Agreement for the Series A Certificates provides that the term "Available Reserves" is defined to mean, as of the date of calculation, the amount of unrestricted funds in the Electric Revenue Fund designated as "Available Reserves" for purposes of the Installment Purchase Contract by the City and then available to pay Maintenance and Operation Costs and/or Annual Debt Service (as such terms are defined in the Installment Purchase Contract), which may include transfers to the Electric Revenue Fund from the Rate Stabilization Fund or any other fund that is legally available for deposit in the Electric Revenue Fund; and

WHEREAS, the Rate Stabilization Fund exists for the purpose, among others, of providing a buffer against the need to increase electric rates in the short term due to increases in the cost of purchasing power; and

WHEREAS, the Rate Stabilization Fund currently has a balance of \$6,349,583; and

WHEREAS, the moneys in the Rate Stabilization Fund are legally available for deposit in the Electric Revenue Fund; and

WHEREAS, The 2004-05 budget year has seen significant increases in the cost of bulk power and the 2005-06 budget year is expected to see continued high-bulk power costs; and

WHEREAS, the City Council desires to provide sufficient revenue for the 2004-05 budget year; and

WHEREAS, \$4,500,000 is needed to cover the demands on the Electric Revenue Fund created by the increased cost of bulk power in the 2004-05 budget year: and

WHEREAS, this action will draw down on the Rate Stabilization Fund and Council is committed to maintaining an appropriate reserve in the Rate Stabilization Fund for the 2005-06 budget year and beyond; and

WHEREAS, all acts, conditions, and things required by the laws of the State of California to exist, to have happened, and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby, do exist, have happened, and have been performed in regular and due time, form, and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LODI, AS FOLLOWS:

Section 1. The Finance Director is directed to transfer \$4,500,000 from the Electric Rate Stabilization Fund to the Electric Revenue Fund and such moneys are designated as "Available Reserves" for purposes of the Installment Purchase Contract, which are available to pay Maintenance and Operation Costs and Annual Debt Service.

Section 2. The City Manager is directed to perform a rate study for the Electric Utility and return to the Council for action to replenish the Rate Stabilization Fund and provide sufficient revenue to cover the increase in bulk power costs for the 2005-06 budget year by no later than December 31, 2005.

Section 3. This Resolution shall take effect immediately upon its passage.

Date: June 15, 2005

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I hereby certify that Resolution 2005-126 was passed and adopted by the City Council of the City of Lodi in a regular meeting held June 15, 2005, by the following votes:

AYES: COUNCIL MEMBERS – Hansen, Hitchcock, Johnson, Mounce, and Mayor Beckman

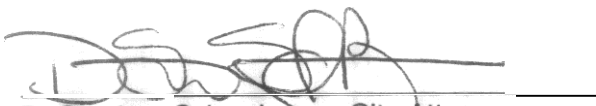
NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


Susan J. Blackston, City Clerk

Approved As to Form:


D. Stephen Schwabauer, City Attorney